RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Oct. 16, 1991 **LETTER 1080**

Oct. 4 DJIA 2961.76; PTI 3386; A-D Ratio -10.86
Oct. 11 DJIA 2983.68; PTI 3391; A-D Ratio -11.10
Dow Yield: 3.10%; Dow P/E: 24.8; DowPow: 8
Dow 200-day MA: 2907; Dow 30-day MA: 3018
Dow Times Book Value: 2.24; PTI 89-day MA: 3343
Percentage of Undervalued Blue-chips: 10%
Stock Summation Index: 1334 (Bearish)
Bond Summation Index: -41 (Bearish)

THE PICTURE: TECHNICAL: The Positive: My Primary Trend Index continues to hold above its 89-day moving average. The high for the PTI was recorded on October 2 at 3396. Since then the PTI has backed off but with not much bearish conviction.

The Negative: From a Dow Theory standpoint, the divergence in the Averages is still a problem. Since their June 4 peak, the Transports have traced out a series of declining tops, even as the Industrials advanced to new highs (see page 1 chart). With Transports still below their last peak (1215.44), it appears that Industrials are skittish about trying to mount any major new advance (since a new record Dow high would, in all probability, produce another Transport non-confirmation). Conclusion: a technical stalemate.

OVERSOLD: Based on my 21-day moving average of TRIN, this market is oversold and has been since mid-September. One of the advantages of an overbought/oversold index is that it can be an aid in deciding whether the primary trend is bull or bear.

For instance, when the market is oversold within a primary bull trend, that condition normally puts a powerful floor under the market, preparatory to a rally. But when the market is oversold within a primary bear trend, the market may remain oversold for an indefinite period of time -- and all the while the market will continue to decline. So let's see how the market acts in the current oversold area.

VALUES: I just received the latest report from my old friend, Gerry Weiss, of *Investment Quality Trends* here in La Jolla. Her latest report is worth going into in some detail. Gerry monitors a universe of 350 blue-chip, dividend-paying NYSE issues. Each of these stocks possesses historical dividend perimeters. Thus, each stock's current dividend yield tells Gerry whether that particular stock is overvalued, fairly valued or undervalued.

To give an actual example -- historically when Hewlett-Packard advances to the point where it only yields around 0.3%, it is overvalued. But historically, when Hewlett-Packard drops to the point where its yield rises to 1.0%, it is undervalued. HWP has fluctuated between those two yield extremes for decades.

Every two weeks Gerry monitors all of her 350 blue-chips, and what that percentage count reveals is extremely important. The chart on page 2 tells the story. Historically, whenever the percentage of undervalued stocks reaches around 80% or above,the market is in a great bargain area. The 80% figure tells us that four out of five of the blue-chip stocks are undervalued and are an outstanding buy. At the 80% level, the market has always been near or at an important bottom.

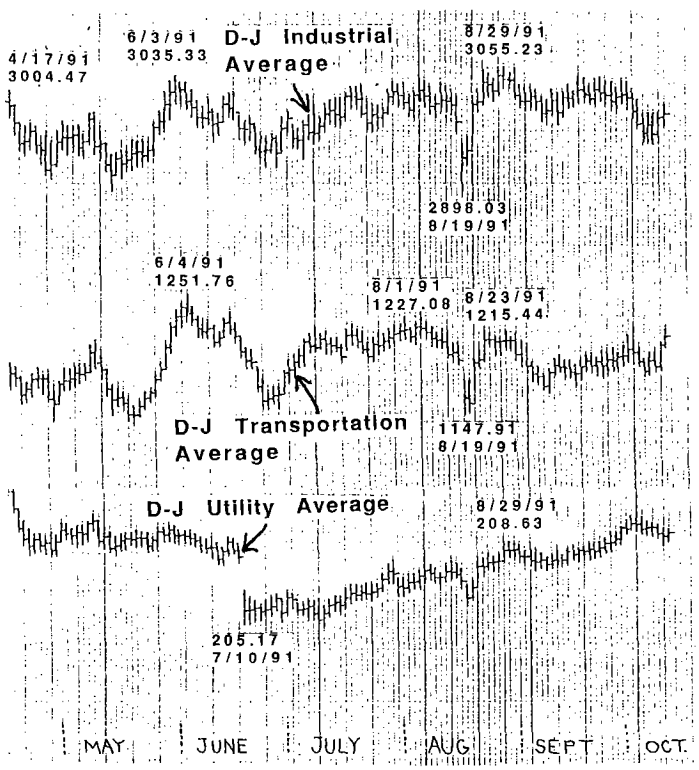
The other side of the coin is this. When the Undervalued Percentage drops to 13% or below, the market is overvalued. A 13% or below percentage tells us that only one out of every 10 blue-chips is undervalued. As you can see on the chart, at 13% or less, the market has always been a sale.

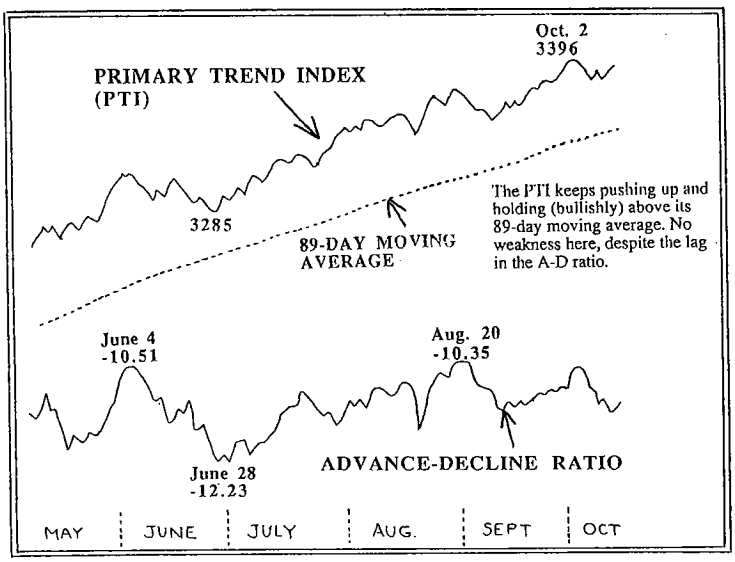
The latest percentage figure from *IQ Trends* surprised even me. The Undervalued Percentage of Blue Chip Stocks has now sunk to **10%.** The only other time in the last quarter century that the Undervalued Percentage dropped to this low level was in 1966 prior to the 1966-74 bear market. Even in 1987, just before the disastrous 1987 crash, the Undervalued Percentage had only dropped to 12%. We are lower now. Thus, this study has now issued a stern warning. Be advised.

Overview: The bulls have a theory. Their theory is that the blue-chip stocks may be overvalued, but many secondary and junior growth stocks are still undervalued. Therefore, the bull market will continue, they reason. But from this point on, say the bulls, the big money will be made in the secondary stocks and the emerging growth stocks. The Dow may very well churn or even stall out, but the "little blue-chips" and the "emerging growth" stocks will just keep climbing.

It's an interesting theory, and maybe it will work. Certainly a lot of people believe the theory. How do we know? We know because the money has been piling into the junior blue-chips and emerging growth areas of the market. Emerging growth mutual funds have been sprouting like crocuses in the spring. The word is, "Forget the big blue-chips -- small cap stocks are where it's at."

Actually, when the big blue-chips and the former high-flyers show signs of deterioration or stalling out, and the laggards begin to lead the parade, this has historically been the sign of an approaching top. Money is starting to run out of one group and into the next, with the result that there is little change in the stock averages. As I



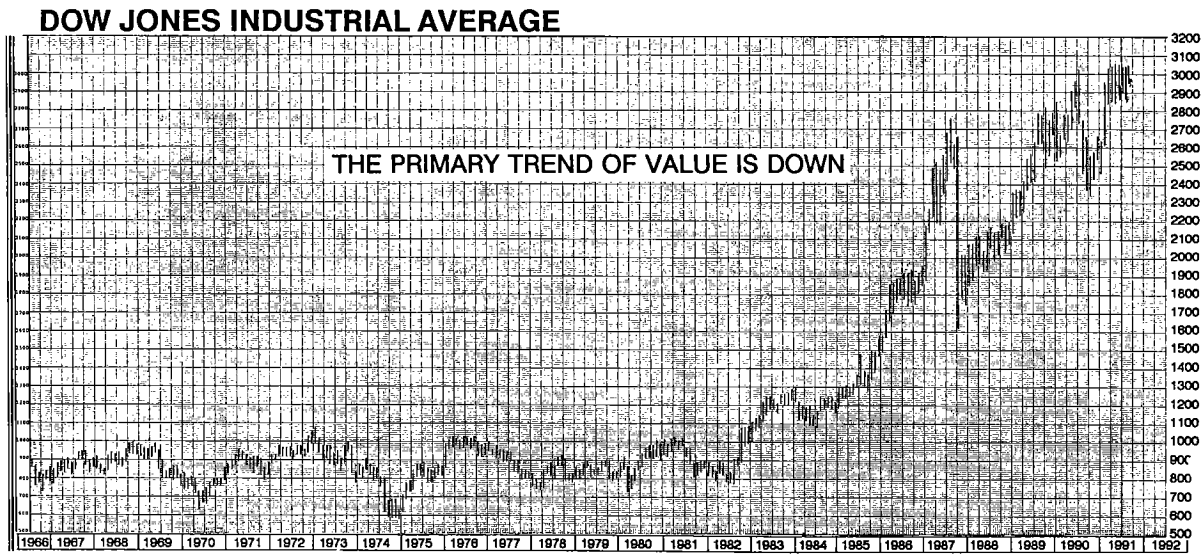


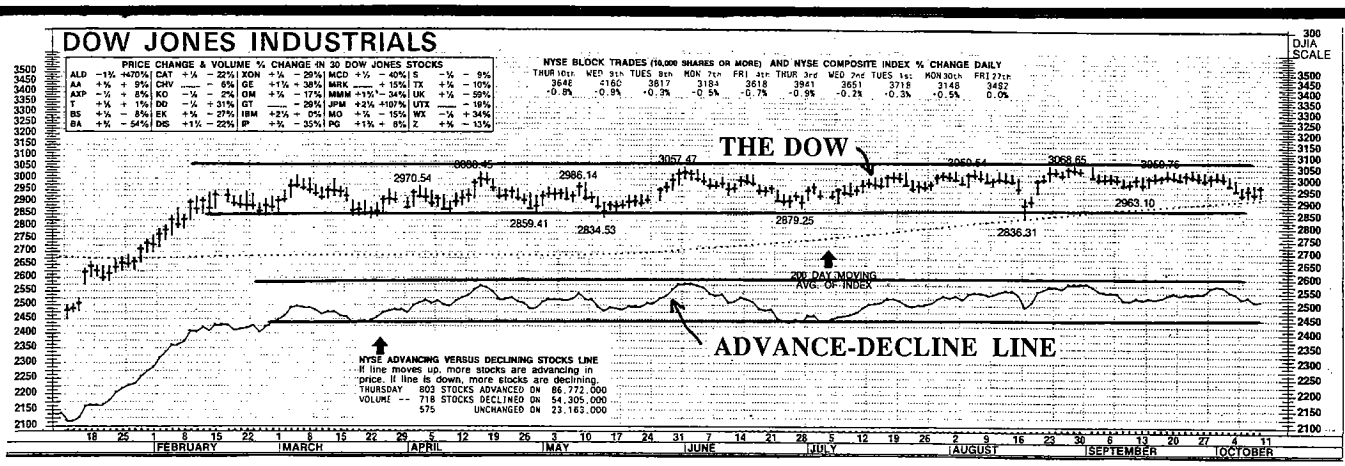
said, this is topping action, and when veteran market practitioners see this phenomenon occurring, they start moving to positions of safety.

As for the big blue-chips, I am including (see below) a chart of the Dow and the advance-decline line from a current issue of *Investor's Business Daily*. Take a good look at this chart, because it may be a long time before you see anything like it again. Here we see both the Dow and the A-D ratio in extraordinary, extended "line" formations. What you can say here is that for nine months (ever since February) buyers and sellers have been very evenly matched. As a rule, when an average breaks out (either up or down) from a line formation such as this one, the action tends to be powerful and more often than not, long lasting.

The upper limit of the Dow line is 3055.23. But we must remember that according to Dow Theory, it takes two to Tango. Meaning, of course, that if the Dow does break above 3055.23 the move must be confirmed by the Transportation Average -- the comparable Transport high is 1251.76.

On the downside, for the key figures, I am using the Soviet coup "panic lows" of 2898.03 for the Industrials, 1147.91 for the Transports -- and the same principle holds. If this market is to turn truly bearish, <u>both</u> Averages must break those lows. A breakout by one Average alone has no forecasting value and such a move more often than not -- is deceptive.



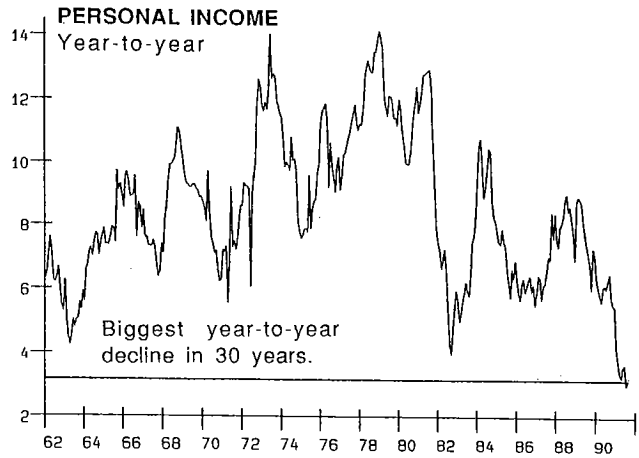


Question: What's the meaning of these extended line formations? Answer: As I see it, the market has simply been unable to make up its "mind" as to what lies ahead. The bull and bear forces have been fighting a fierce but very equal struggle, and the result is a line in the Dow and in the A-D ratio. When the clouds clear, the Averages and the A-D ratio will break out of their line formations.

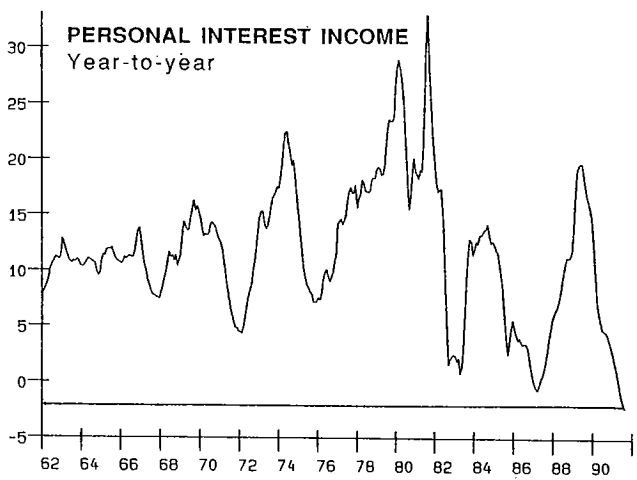
RANDOM COMMENTS: It seems as if the whole investment community is totally focused on "What's the Fed gonna do next?" The magic formula for firing up a recessionary economy -- lower rates. The Fed has dropped interest rates 15 times since the recession began, but the public has steadfastly refused to rush out to borrow and buy (and, of course, borrowing at the banks is what boosts the money supply).

When you think about it, it's rather pathetic. This nation's major problem is debt -- the fact that every agency, every city, every state, every corporation and everyone else is up to their eyeballs in debt. So what is Washington lusting to see? Why it's the public taking on more debt so the economy can expand in time for the election. "By debt we live, and by debt we die." The old Puritan values of save and live within your means have gone the way of the DoDo bird. And thrifty old Ben Franklin is tossing in his grave.

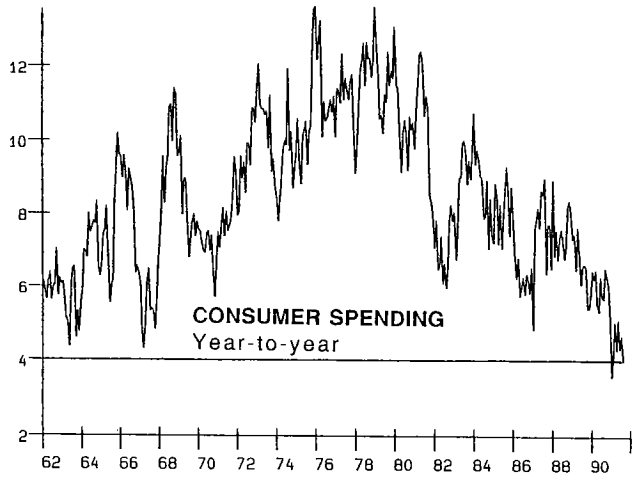
ECONOMICS: Charts published by Ed Hyman and Nancy Lazar *(International Strategy and Investment)* continue to tell the current economic story. Here are a few eye-openers. This first shows Personal Income (year-to-year basis). In a phrase -- it's collapsing.



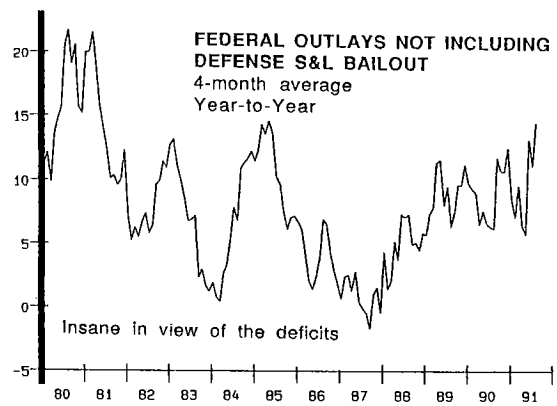
The next chart shows Personal Interest Income (year-to-year basis). It's at a record low. This, of course, is the painful side of declining interest rates (lower interest rates mean less interest income for savers), and I wonder if the Fed isn't worrying about this as it drops interest rates.



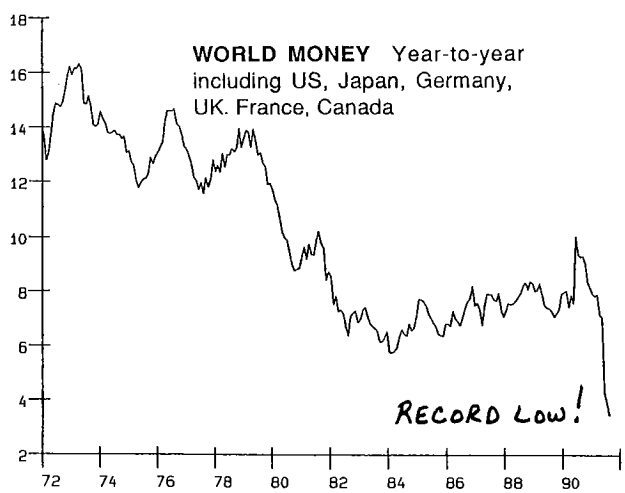
The third chart shows Consumer Spending (year-to-year basis). Public spending is showing its smallest gain in 35 years! Consumers are strapped with debt, groggy from high taxes, and worried about whether they'll have a job a month from now.



Consumers may be pulling their horns in -- but not so the US government. This chart shows Federal Outlays not even including the S&L bailout and Defense. Ed Hyman's comments: "Outrageous spending. Federal Outlays excluding the S&L bailout have increased 9.1% over the past year. And even more alarming is the 14.5% increase in Federal Outlays excluding both the S&L Bailout and Defense. That is, instead of trying to reduce the deficit, Washington is spending even more than they are saving on defense cuts. When will it stop? Ridiculous."



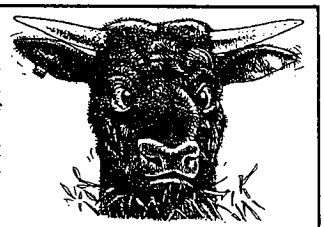
Russell comment: The above chart presents the picture of a government gone bonkers. I continue to offer only one solution for the problem -- get these political bums out of Washington -- vote them out. If this deficit and spending trend continues, your kids and mine will be saddled with impossible debts -- and living



standards in the US will head into the cellar. No currency and no economy can hold up under this kind of deficit spending.

The last chart shows World Money Growth on a year-to-year basis. It's heading for zero. Is this a result of tight central banks or consumers around the world cutting back on their spending? If it's a matter of consumers not spending, then it's outside the control of the central banks. Money growth in Japan and the UK is at record lows, while money growth is slowing decisively in Germany, France and Canada.

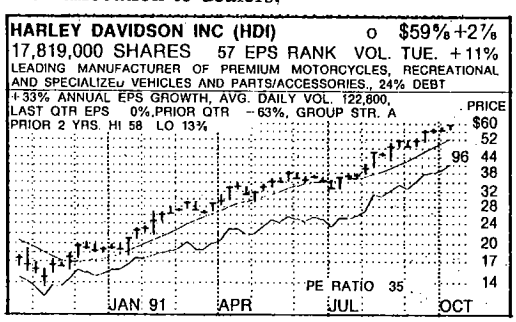
INVESTMENT POSITION: The bull remains in the box, but I'm becoming increasingly wary. The page 2 chart of the Percentage of Undervalued Stocks provides a definite warning, and it's a warning I don't choose to ignore.



Remember, big investors tend to deal in the blue-chips, and it's the big investors who make the trend. The page 2 chart tells us that there are too few blue-chip values left, and when this happens big investors tend to swap their stock certificates for cash (they'll wait for the next bear market bottom to buy). If they can wait, I can too, and I suggest that my subscribers do the same.

So we can be a bit skeptical of all those "outstanding buy" recommendations that you read about in magazines and in advisory services. This is "be safe" time, and again I'll remind you of Russell's First Investment Law: "Above all, don't lose money."

One Good Stock Is All It Takes Dept: As you know, I've been hot about one stock all year (and who said fundamental info doesn't work). That's the stock that makes my favorite mode of transportation -- Harley Davidson motorcycles (I've got two of 'em). In the last year HDI has risen from 13 3/8 to 59 5/8, a rise of 345%. Not bad for a product made in the USA (but believe me, the management of Harley deserves a lot of credit). Harley, by the way, now ships 6% of its output to Japan. All of Harley's much-wanted bikes are on allocation to dealers.



NOTES & QUOTES: Here's a rather shocking statistic. Service industries account for 80% of the employment in the US. During the '80s and even before, service boomed as law firms, accountant firms, financial firms, medical firms plus a thousand other service industries loaded up with personnel. America became a nation of people servicing each other. Now in the vicious competition of the '90s, many service firms are trying to stay alive, and this means firing service employees by the tens of thousands -- which is exactly what we're seeing.

* *

Is a trade war about to start? House speaker Richard Gephardt and Senate Banking Committee Chairman Don Reigle are preparing a bill to set the first formal limits on Japanese car sales in the US -- and this includes Japanese cars built in the US. The bill follows on the heels of the worst year for Detroit in a decade. If the bill goes through, expect the Japanese to retaliate.

* *

Russell confession: I'm not voting for Pete Wilson in the next election. Yep, Pete's lost my vote, and probably almost everyone else's vote in the Golden State (his approval rating has just dropped to 29%). Wilson just handed us the biggest tax increase ($8 billion)

Gov. Wilson Sets State Record For Alienating Voters

By DOUG WILLIS
Associated Press Writer

Thanks to a bitter budget battle and $8 billion in new taxes, it's taken California Gov. Pete Wilson just nine months to alienate as many voters as predecessors Ronald Reagan and Jerry Brown turned against themselves in nearly five years.

The freshman Republican governor, who had a 3-1 approval rating

in California history, and that was supposed to balance the budget. But the latest figures show that the deficits continue, mainly because the rich are moving out of California, the middle class in California is going broke and the rest don't pay much in taxes or are on welfare and receiving money from the state. Job losses continue apace in California with layoffs currently seven times what the administration had predicted and income growth dropping in half. Furthermore (surprise), tax collections in California were down 6.4% in September, and the state has suffered 240,000 in layoffs so far in the recession. Furthermore, there's a huge population exit from the Golden State, with almost as many leaving now as coming in (and the ones leaving tend to be the people with money). The word is that Governor Wilson's eye is on the presidency. I say, "Forget it, Pete, you've got to stop screwing up here first " (And Pete, don't count on the big California gay vote either).

* *

Speaking of layoffs and pink slips, according to Ohio-based *Workplace Trends,* US businesses laid off 147,000 workers last quarter. Currently, layoffs nationwide are continuing at the rate of over 2,200 per day.

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One area not affected by the recession is the price of fine jewelry. Buyers, evidently feeling that jewelry represents a store of value, continue to pay top prices for outstanding gems and jewelry. Colored stones (particularly rubies, sapphires and emeralds) have been selling for top dollar at auctions. How do I know? I get the Christie and Sotheby auction catalogues and I check the prices paid Believe me, the prices are "up there." Michael van Saldern, a minerals economist, writes that he expects diamond prices to double by 1995, based on De Beers' Central Selling Organization (which controls 90% of all rough diamonds) systematically boosting prices annually.

* *

If Only: 51% of doctors would not choose that career if they had it to do over again, and 65% of doctors would not recommend medicine as a career for their children. Of lawyers, more than half now say that they would not choose the law if they had it to do over again. Flash -- my wife, Faye, says she likes being a lawyer, so there.

* *

"W," the magazine/newspaper of the high and mighty, the beautiful and thin, the rich and fashionable, tells it like it is -- in their new October 7 issue. "New York is dead, and London is also very negative. Paris is returning to what it was before -- the capital of elegance. . . The city of light is lighting up." *W* also likes Milan, at least for now. *W* asked designers and trend makers what was "in" and what was "out." In (I assume this is all for women) is sophistication, a new simplicity, showing off your legs and breasts, freedom, super short, leopard prints, high heels, lace, lingerie, The Gap, stripes, gardens, honesty, bare legs and short skirts, chain bracelets, shorts. Out is hard, heavy metal, shoulder pads, hats, big purses, the Sixties, Barbie looks, big buttons, Swatch chronograph, strong overdone makeup, long skirts, the safari look, patent leather, Vinyl dresses. There, now you know what to expect from the people who know. Be advised.

* *

The other magazine for the millionaire/billionaire set is *Town and Country.* They shocked me with their October issue. It featured an article on personal bankruptcy. Sign of the times?

* *

I set aside one hour a week for industrial strength worrying. I worry about the world my kids will be growing up in, I worry about the growing violence everywhere, I worry about the dollar, I worry about the federal deficits, I worry about whether Bush

knows what he's doing, I worry about pollution, I worry about the US and world population growth. As to the last, do you realize that the US is adding population equal to four Washington DCs every year, another New Jersey every three years, another California every 12 years. According to *Zero Population Growth* (1400 16th St. NW, Wash. DC 20036), if current trends continue the US will add another 40 million to its total population by the year 2000. Where's all the garbage going to go? Yeah, I worry about that, too.

* *

I doubt if anyone has written or talked more about the federal deficit than yours truly. According to a full page story in the Oct. 1 *USA Today*, "As Red Ink Gushes, Public Takes Notice." C'mon I won't believe the American people are worried about the deficits until I see our incumbent Congressmen and Senators voted out of office wholesale.

* *

By the way, how do you like the stir the House bank has created? Everybody's angry because our guys in Congress had free check-bouncing privileges as well as free hair cuts, free parking and free mailing privileges. People respond emotionally, not with their brains. The Congressional cheating (maybe amounting to a few million bucks a year) arouses the nation. Meanwhile, Congress spends **$1.15 billion** a day more than the nation takes in, and the public goes along with it. Russell prescription (for the umpteenth time): Vote these people OUT then give the new ones LIMITED TERMS IN OFFICE.

* *

Over the last 12 months our government (yours and mine) has added a shocking $420 billion to our total federal debt. The interest on the federal debt this year will be around $300 billion, actually surpassing the total amount of the military budget. To put it another way, the government now pays $1 in interest for every $5 it spends. Cute, huh? By 1995 interest on the federal debt is estimated to be $391 billion, an amount almost as large as this year's total deficit! People who are buying 10-, 20- and 30-year bonds might study the above. Can you guess what the dollar will be worth when today's 30-year bonds mature?

* *

One fellow who is happy with the Bush announcement on the removal of our tactical nukes is my old buddy and high school classmate, Spurgeon Milton Keeny, Jr., President of the Arms Control Association, 11 DuPont Circle, Wash. DC 20036. Milton has been working for decades for arms control, and he has been a real force in this critical area. Milton used to be my chief competitor in the 100-yard dash back at Horace Mann School for Boys in NYC. But arms control isn't like the dash -- each step in arms control takes a long, long, long time. I might add that (ironically) another classmate of ours General Elias Surut, was president of the nation's War College. Ah, that was a high school class.

If you think the timid Mr. Bush took a monumental step in unilaterally cutting back on the nukes, it ain't really so. Bush left all the big money programs intact (it wouldn't have anything to do with "stabilizing" the economy, would it?). Left intact were the B-2 stealth bomber program, the C-17 transport plane, the Sea Wolf submarine, and Star Wars.

* *

According to Peter Drucker's startling article in the Oct. 2 *WSJ*, Japan is farming out its manufacturing to low-cost labor countries (Mexico, S. America, Southern Asia), mainly because Japanese leaders feel "that manufacturing does not belong in a developed country such as Japan. Before (Japanese) youngsters can go to work on the assembly line, my Japanese friends say again and again, Japan pours $100,000 in school expenses into them. . . So the new Japanese strategies call for total control of what matters. To be competitive, the argument goes, Japan requires leadership in technology, marketing and management, and firm control of what my Japanese friends are beginning to call 'brain capital'." Russell comment: Kind of scary, isn't it?And more so when you realize that Japan is now actually graduating more engineers than we are.

* *

Eberhard von Kuenheim, BMW's chief, claims that the Japanese are dumping their luxury cars here at below cost. "First they are going to clear out the field, then they'll raise the prices. At BMW we know what you have to pay for tires, steel, and labor. Their prices obviously aren't related to (production) cost," complains the BMW chief. The Japanese refute von Kuenheim and claim they are making money on Lexus. Russell comment: Everybody I know who owns a Lexus raves about the car. Lexus is taking business away from Mercedes and BMW. Still, one of the ladies who works in this office has a brother who sells Lexus. He reports that business has fallen off considerably. Problem -- new car prices have headed skyward, and consumers are suffering from "major sticker-price shock." Lofty car prices plus a blizzard of US pink slips hardly makes for good car markets.

* *

One formula for success in the stock market is to buy the five Dow Industrial stocks with the highest yield each year. Here are the current top five yielders --Westinghouse 6.26%, Texaco 5.17%, Sears 5.00%, Allied Signal 4.75%, IBM (would you believe) 4.70%. At the low end of the scale are Merck with a yield of 1.96%, Coca Cola at 1.49%, McDonald's at 1.13%, Goodyear at 0.96% and Walt Disney at a ridiculously low 0.62%.

* *

Gambling: 48 states now allow some form of gambling. Iowa, Mississippi and Louisiana have now approved riverboat gambling, the latest craze. Video lottery terminals will go statewide in S. Dakota and Oregon. What happened to "old fashioned morality?" Oh, it went with new-fashioned state deficits. And say, isn't Nevada (with its big casinos and no state taxes) the fastest growing state in the union?

* *

John S. Reed, Chairman of giant Citicorp, stated in a speech at the Executives Club that the decline in real estate values in the US is permanent. The capital-intensive real estate market is feeling the effect of global economic changes that have cut the amount of investment money available. "It is my estimate that commercial real estate in the United States . . .is going through an approximately 30 percent reduction in value. . . I see it as a fundamental repricing of these assets vis-a-vis other items in the economy." As a result, prices are falling for "major classes of assets" including office buildings and other commerical real estate, which tie up large amounts of investment funds for extended periods. Reed mentioned the massive amounts of new capital that will be needed throughout the world, including $21 trillion for the Soviet Union and Eastern Europe.

* *

Did the *Wall Street Journal* "blow it?" I've written about this before, and I have felt all along that the venerable *Journal* has been in spaceville, basically ignoring the technical approach to the market, and instead filling its pages with financial information much as if it were Wall Street's version of the *New York Times*. Finally, competition came along in the guise of *Investor's Daily*. I don't know how they did it, but somehow *Investor's Daily* has stayed in business and expanded. *Investor's Daily* stayed around by publishing what thousands of investors sorely needed -- technical information, relative strength figures, commodity info, short but original financial stories, and charts, charts and more charts.

Meanwhile the *WSJ* continued on its old gray way, publishing a lot of interesting stuff (much of it not too pertinent) and neglecting the technical data that so many investors want and need. Recently, *Investor's Daily* changed its name to *Investor's Business Daily*, an obvious further challenge to the *Journal*. *IBD* is now not only going to challenge the *WSJ* on the technical front, they were going to challenge the *Journal* on a business information front. I notice that *Investor's Business Daily* circulation has now risen to a new high of 116,000 and each issue includes more advertising. The *Journal* for decades arrogantly refused to accept advisory advertising while its competition took all it could. Now, I notice that the *WSJ* has quietly decided to accept investment advisory advertising. A little late, I think. And as I said before, I believe the *Journal* has missed the boat as far as investor's needs are concerned. What do they say -- it's never too late to learn (You'll know the *Journal* is getting somewhere when they start using photographs instead of those blasted line cuts).

* *

American Express' Optima credit card has been a bummer, causing the company to take a $265 million charge against third quarter

earnings. American Express said that the huge losses reflect "serious concerns over the dramatically rising rate of personal bankruptcies in this country and the impact of a weak economy." The Optima card offered very competitive interest rates, but it evidently (according to Amer. Exp) "attracted the wrong kind of people."

* *

For my thousands of ex-Julian Snyder *"International Moneyline"* readers, here's a letter just received from the master (who is safely ensconsed in St. Moritz, Switzerland). "Dear Richard, for what it's worth, I think we are getting a contained depression -- contained by the Fed's capacity to create money. This means bad times ahead -- staggering economies -- but no net deflation (I'll bet anything you like on this). To get deflation, you need limits (as there were in the 1930s) on the amount of money you can create.

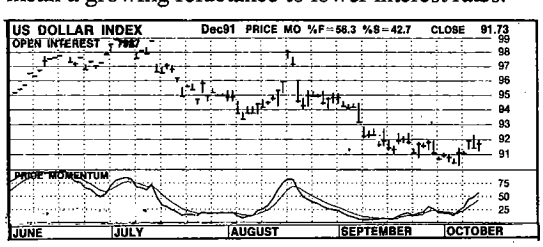
"And have you thought about this? The $100 bill is worth almost what a $10 bill would buy in 1940 -- maybe a little less. And have you noticed -- you can't get a bill in a larger denomination? So hiding cash in the mattress is getting tougher and tougher (in Switzerland one piece of paper is worth $600 -- a Swiss Franc 1.000 note). The banks have arranged it that way so there won't be runs as in the Depression, and Fed bailouts are keeping money from being extinguished by collapsing credit. Nobody ever writes about this and few understand it. We have a permanent inflationary economy where the interest you earn is destroyed long-term by the rate of inflation. I'll bet you that the money you put in bonds in the 1970s plus interest earned won't come close to buying the same basket of goods today. . . Say hello to any of my old subscribers. . . Best regards, Julian."

Russell comment: Yeah, I've been talking about this, Julian. What's our government's policy in handling trillions of dollars in debt? Easy, it's systematic inflation. At 5% inflation (which is where we really are today), the value of the dollar drops in half in 20 years. So fight deflation, and just don't let inflation go up too fast. But there's a fooler. The national debt is rising and compounding, eating us up alive. It's taking more and more money creation to do less and less. And right now, the Fed is having trouble creating money. "Inflate or die," I've said that for years.

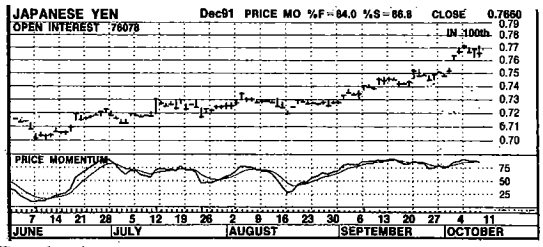
GOLD, DOLLAR, BONDS: According to Malcolm Forbes, Jr., in the the Oct. 14 issue of *Forbes,* gold could be guiding the Fed. Writes Forbes, "Fed Chairman Greenspan has long been fascinated by the barbarous relic as a monetary guide. His influential colleague, Governor Wayne Angell, has stated that commodity prices, particularly gold, are the best compass for avoiding inflation and deflation. History shows that gold is the most sensitive monetary thermometer. Properly utilized, it never lets the dollar become too dear or too easy. . . when we began abandoning gold in the late 1960s, interest rates went haywire, never returning to the levels they had generally held for the previous two centuries."

That's quite an admission from Mr. Forbes. What he's really saying is that when we went off gold, the dollar lost its anchor, at which point inflation boomed, the dollar sank and real interest rates stayed historically high.

Yes, I agree with Forbes. Greenspan is watching gold. Rising gold could mean inflation via a deteriorating dollar. And that, in turn, could mean a growing reluctance to lower interest rates.

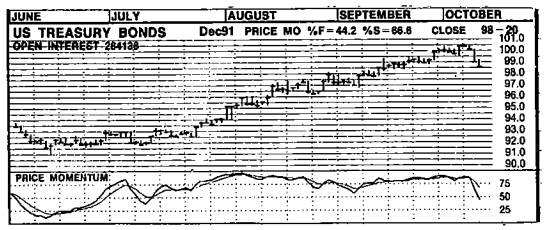


In recent Letters I've been directing attention to the swooning dollar. US interest rates are now drastically out of whack with European rates. German short rates are almost 4% above ours. Who wants dollars when you can get 9% for six-month German paper? Furthermore, Japan's trade surplus is booming, making the Yen the strongest of the "hard currencies". Study the chart of the Dollar Index (courtesy of *Investor's Business Daily*). It's the picture of a currency that's gone into the tank.



On a Purchasing Power Parity basis (according to the latest Merrill Lynch figures), the Deutschemark is currently 8.3% overvalued vs. the dollar and the Yen is 17% overvalued vs. the dollar. In other words, the dollar is still an undervalued currency based on what it will buy here, but the combination of US recession, US deficits and low US interest rates have been hitting the dollar --hard.

I said a few years ago that when the recession arrived the Fed "would fight it tooth and nail." We're seeing that now. Since the recession began, the Fed has lowered rates 15 times, four cuts in the discount rate, 11 cuts in the Fed Funds. As for bonds, they've had a huge move, all courtesy of the Fed. Last week's drop in bonds was the biggest in five months, but whether that break has put a top on the bonds remains to be seen. Note: My bond summation index (based on advances and declines on NYSE bonds) has finally turned bearish, after being bullish since early July.



Meanwhile, gold has been holding its own in an atmosphere that our government tells us is non-inflationary. What's really happening is that the price of goods in the department stores is soft (due to sales everywhere -- nobody pays the retail price anymore), but the cost of services and medical continues to climb. So America's "contained depression" continues, with Uncle Sugar buying up or holding up the bankrupt institutions (as long as they're worth over a billion bucks).

LATE NOTES: The Transports have surged above their last peak at 1215.44. Now it remains for the Dow to confirm by bettering their own most recent peak -- which happens to be their record high of 3055.23. One of these days the two Averages are going to get "in gear," and when that happens the market direction will clarify. The latest issue of *Barron's* lists the Dow as selling at a whopping **24.8** times earnings. It has seldom sold at a higher valuation. Apparently that doesn't bother my PTI, which is again near its peak.

Is the Fed pushing on a string? Lower rates are supposed to jazz up consumers, causing them to run out and buy, borrow and buy more. But so far, consumers are more concerned with hanging onto their vanishing jobs than they are with buying cars or washing machines. If the banks don't lend, the money supply doesn't expand. So far, very few people want to borrow, and the banks would rather buy Treasury bonds than lend -- so the money supply continues to scrape the bottom. Here's a new one -- a few economists are now claiming that the money supply doesn't matter. Right, and Hitler wasn't an anti-Semite.

NEXT MAILING: Oct. 30